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BEFORE THE ARIZONA CORPORATION COMMISSION

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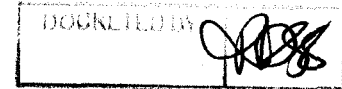
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ARIZONA CORPORATION COMMISSION
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NOV 18 2010



IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY'S REQUEST FOR
APPROVAL OF SCHOOLS AND
GOVERNMENT RENEWABLE ENERGY
PROGRAM

DOCKET NO. E-01345A-10-0166

IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR APPROVAL OF ITS 2011
RENEWABLE ENERGY STANDARD
IMPLEMENTATION PLAN AND
DISTRIBUTED ENERGY ADMINISTRATIVE
PLAN AND REQUEST FOR RESET OF
RENEWABLE ENERGY ADJUSTOR

DOCKET NO. E-01345A-10-0262

**ARIZONA PUBLIC SERVICE
COMPANY'S COMMENTS TO
RECOMMENDED ORDER**

Arizona Public Service ("APS" or "Company") filed its 2011 Renewable Energy Standard Implementation Plan ("2011 Plan") for Arizona Corporation Commission ("Commission") approval on July 1, 2010, in compliance with the Renewable Energy Standard ("RES") Rules.¹ APS filed supplemental information on October 13, 2010 ("Supplemental Filing"). The Company is filing these Comments in response to the Recommended Order, which was filed in this docket on November 10, 2010.

APS is generally in agreement with the conclusions reached in the Recommended Order. However, there are key issues that involve the continued demand from residential customers for distributed energy ("DE") incentives where APS and Staff have offered different approaches. APS urges the Commission to approve the Company's approach to the

¹ A.A.C. R14-2-1801 through 1816.

1 residential incentive step-down methodology and associated funding cycles, and to eliminate
2 the incentive cap based on a percentage of project costs for both residential and non-
3 residential incentives.

4 **Incentive Funding**

5 While APS believes that both the Company and Staff have proposed reasonable
6 approaches to “step-down” residential incentives, the Company continues to support the
7 approach proposed in its 2011 Plan. APS’s proposed incentive funding mechanism was
8 carefully crafted to achieve several goals: to provide customers with assurance of the amount
9 and timing of incentive funding available for individual projects; to respond to industry
10 stakeholder concerns that incentive funding be available throughout a calendar year to ensure
11 business continuity; and to address the Commission’s directive to promote greater customer
12 understanding and transparency regarding the incentive process. APS believes that its
13 proposal meets these goals.

14 APS is concerned that Staff’s Alternative Budget Trigger Mechanism (which ties the
15 reduction of incentives to budget expenditures as measured against expected quarterly
16 activity) may result in a lack of funding in the latter part of 2011. Additionally, it may
17 potentially cause significant incentive reductions attributed to the timing of achieving the
18 proposed incentive triggers. Staff’s proposal appears to assume that 30 percent of the 2011
19 incentive funding may be committed by March 31, 2011. However, the Commission has
20 already authorized the Company to commit its 2011 incentive funds in the 4th quarter of 2010
21 for a maximum of 600 customer reservations.² As of November 15, 2010, APS has already
22 committed 35 percent of its proposed 2011 residential grid-tied PV incentive funding, with
23 applications sufficient to account for an additional 22 percent. Said another way, \$9.1 million
24 in customer demand for incentives in 2011 has already been met through commitments in
25 2010, and \$5.8 million in customer applications are already pending. Together this reflects
26

27 ² Commission Decision No. 71913 (Sept. 28, 2010). A relative comparison, as noted in the Recommended
28 Order, is that 75 percent of APS’s 2010 residential incentive budget was allocated in the first quarter of 2010.
See Recommended Order at 10.

1 53 percent of APS's proposed residential incentive budget (or 45 percent of Staff's proposed
2 2011 incentive budget).

3 While both Staff's and the Company's proposed incentive step-down mechanisms
4 provide for a greater level of predictability, APS's proposal, which is based on the number of
5 customer applications, provides an understandable mechanism for customers participating in
6 the program. APS believes that under Staff's proposal, it will be more difficult for customers
7 to plan for and understand incentive level changes. Furthermore, unlike APS's proposal,
8 Staff's recommendation does not include funding cycles, which creates a real risk that
9 residential incentive funding will be depleted before year end. For these reasons, APS urges
10 the Commission to adopt its proposal for incentive step-downs as it provides transparency and
11 clarity of communication for customers and installers, provides a predictable schedule for
12 incentive reductions, and equitably spreads the residential incentive funding over the entire
13 year.

14 **Incentive Caps**

15 Staff has recommended that the Commission continue to impose an incentive cap of 50
16 percent of total system cost for residential renewable DE systems. Likewise, Staff
17 recommended that the Commission continue to impose an incentive cap on non-residential
18 DE systems, but reduce the current 60 percent of total system cost cap to 50 percent, to match
19 the residential incentive cap. Contrary to Staff's position, APS continues to urge the
20 Commission to eliminate the incentive caps for both residential and non-residential systems
21 up-front incentives ("UFI") that are based on a percentage of the total system costs.

22 APS recommended this change after discussions with industry stakeholders prior to the
23 filing of the 2011 Plan; APS agrees with stakeholder comments that creating and maintaining
24 transparency in this market is a key component of building a successful and sustainable
25 industry. APS believes this should be achieved by using a single, transparent metric – the
26 incentive – to signal market prices. Additionally, a cap can have the perverse effect of
27 inflating project costs. By maintaining the incentive cap, the Company is sending an artificial
28 signal to the market, thereby not incenting the market to communicate actual system costs.

1 The competitive nature of APS's current Production Based Incentive ("PBI") program
2 continues to drive down the cost of incentives at a rapid pace, and the 60 percent cap is no
3 longer constructive in managing the contribution for customer projects. Specifically, to
4 ensure that incentives paid on a production basis are clearly comparable across projects and
5 that incentive economics are clearly demonstrated on a project-by-project basis, the cap on
6 PBI contribution must be removed.

7 **Residential Incentive Budgets**

8 Regarding Staff's recommendation on the residential incentive budget, the Company
9 does not believe there is a need to increase the residential incentive budget above that already
10 proposed by APS. The Company's 2011 Plan provides for appropriate levels of capacity
11 beyond RES compliance, and proposes a budget that exceeds the RES residential DE
12 requirements.

13 In the event the Commission decides to adopt Staff's recommendation to forego the
14 implementation of the Powerful Communities Feed-In Tariff ("FIT"), the \$200,000 budgeted
15 for the FIT program in 2011 should be reallocated to the residential incentive budget. Should
16 the Commission adopt Staff's proposal to increase the budget for residential incentives, this
17 same amount (\$200,000) should be preserved in the Schools and Government program,
18 ultimately transferring \$300,000 from Schools and Government, rather than the \$500,000
19 proposed by Staff.³

20 **Clarifying Language Requested**

21 There are a few instances in the Recommended Order where additional language could
22 add clarity for all interested parties, specifically related to the proposed Innovative Renewable
23 Energy Project Initiatives, the funding set-aside for Rapid Reservation, and Staff's
24 recommendation to reduce incentives for PBIs.

25 APS has proposed to procure renewable resources that are designed to demonstrate
26 innovative deployment and innovative technologies, using funding that currently remains in
27

28 ³ See Recommended Order at 16.

1 the budget from its Distributed Energy Request for Proposal.⁴ The Recommended Order is
2 silent regarding approval of this program, and therefore, APS urges the Commission to
3 include a specific ordering paragraph approving the Innovative Renewable Energy Project
4 Initiative.

5 Additionally, to facilitate a clear understanding of the Commission's final order, APS
6 recommends that should the Commission adopt Staff's recommendations regarding a funding
7 set-aside for Rapid Reservations,⁵ or a reduction in PBIs,⁶ that specific ordering language
8 regarding those provisions be included in the decision.

9 APS appreciates Staff's thorough review of its 2011 Plan and Supplemental Filing and
10 is prepared to work with stakeholders to implement its 2011 programs upon Commission
11 approval.

12 RESPECTFULLY SUBMITTED this 18th day of November, 2010.

13
14
15 By: 
16 Deborah R. Scott
Attorney for Arizona Public Service Company

17 ORIGINAL and thirteen (13) copies
18 of the foregoing filed this 18th day of
19 November, 2010, with:

20 Docket Control
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22 1200 West Washington Street
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25 //

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27 ⁴ See Recommended Order at 19.

28 ⁵ See Recommended Order at 12.

⁶ See Recommended Order at 13.

1 COPY of the foregoing emailed, mailed and/or
2 delivered this 18th day of November, 2010 to:

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